



December 3, 2008

Members of the Investment Committee
California Public Employees' Retirement System
Lincoln Plaza East
400 Q Street, Room E4800
Sacramento, CA 95814

Re: Asset Allocation Item (3b)

Dear Members of the CalPERS Investment Committee:

Pension Consulting Alliance, Inc. ("PCA") has reviewed the proposed Asset Allocation recommendations to be presented at the Investment Committee meeting on December 15, 2008.

Recommendation

PCA recommends that the Investment Committee approve Staff's recommendation to temporarily expand the asset class ranges until a new asset allocation review can be completed.

PCA recommends that the Committee approve the Staff recommendation to conduct a new asset allocation study in early 2009.

CalPERS, like other institutional investors faces today unexpectedly rapid asset allocation changes due to the unanticipated extreme stock market volatility and illiquidity in the fixed income markets. Market events have shifted the portfolio such that a number of asset classes are outside of their target policy ranges. Staff and the CalPERS investment consultants met to analyze the current market situation and its impact on the CalPERS portfolio.

After thorough deliberation, PCA is of the opinion that the most prudent approach during the current market environment is to temporarily widen the asset class ranges to allow asset classes to stay within adopted policy until such time as the Committee adopts a new asset allocation policy.

PCA recommends that the Investment Committee approve the Staff Recommendation to temporarily widen the asset allocation policy ranges and to conduct an asset allocation review in early 2009. I will be available at the Investment Committee meeting to answer any questions.

Sincerely,

Allan Emkin
Managing Director